Federation of Energy Response Aggregators

FERA Response to

SEM Committee consultation on

Applicability of Reliability Option Non-performance Difference Charges to Available In-Merit Units

SEM-22-030

FERA's members operate in the Demand Side Response sector of the electricity industry and perform a significant role in supporting the operation of the balancing market and facilitating the continuous introduction of renewables. FERA members include AGU and DSU operators. Our members greatly welcome this consultation and believe that it is an issue that has been identified over a number of years and has been raised by our members on an individual basis.

AGUs perform in a similar way to conventional power plants and DSUs provide Demand reduction which is on a par with generation when balancing the system. Both AGUs and DSUs support the system yet have not been dispatched in line with the published schedules. They also appear not to be dispatched in an economic way, when compared to the Balancing Market pricing.

The following comments are in relation to the published SEMC consultation dated 6 July 2022.

The consultation by the SEMC has identified that there are times when units have been "in-merit" but have not been dispatched. The understanding of that statement is that the unit has a bid (Complex or Simple) that is lower than the Balancing Market price. The unit may have Day-Ahead positions, but we have also examined the Balancing Market and the TSOs dispatch data.

The fundamental question is – What does "In-Merit" mean and do the TSOs have that knowledge when they perform the actual dispatches. We notice that the SEMC refer to In-Merit as being with reference to the Balancing Market price (Page 8 footnote 5)

FERA believes that the TSOs do have all that information to hand and that they produce schedules for dispatch, for long term and short term. The reasons behind these schedules are not so clear, due to the complexity of inputs and system requirements.

FERA would highlight that the Market positions are somewhat open to the bids by participants and the High-Level design suggests that a unit can gain market position by adjusting its bids. This ability allows a unit to cover any exposure to Scarcity events and its Reliability Obligation (RO).

It has become obvious that such approaches are being undermined by the TSOs not following such positioning by the participants and dispatching the units against other policies and procedures.

Section 1.2 identifies the ability of a unit to trade in the Ex-Ante market, with the understanding that the subsequent Physical Notification (PN) shall be followed through by a dispatch from the TSO. If such dispatch does not happen then the unit could be exposed to Difference Charges, as it shall not have delivered against its RO. This is not the fault of the Participant, as they have done their best to support the market in bidding and trading with sound economic decisions.

Whilst a Unit may not have economically positioned itself to attract market position and trades, it may still support the system through dispatch for system services and other TSO reasons. This Unit is still supporting the system to the level of its dispatch, which is beneficial to the overall system and consumer.

The concern raised throughout the consultation is what happens when decisions outside the market impact the ability of a Unit to provide its energy and support the system. Such decisions may include the following items –

- Outturn availability reduced due to distribution or transmission issues
- Firm access limits below the Units capability
- Localised Instruction Sets impacting capability during certain times of the year
- TSO restrictions on certain Units due to concerns over 'system security'.

Not all of these are outside the control of the participant and may reflect their decision to locate the unit's provision behind a known restriction. However, some of them are outside the control of the participant and as such should not expose them to Difference Charges.

The concern is that some protection against Difference Charges shall be provided to Units just because they have been placed in a group that may be considered as providing system support, even though that may not be the case at the time of Scarcity pricing. The difficulty here is identifying if a unit that can provide DS3 or other services should be considered as being 'held back' for supporting the system.

A larger concern is that those units in a locational area could be seen as inherently supporting the system, since the distribution or transmission system have not been sufficiently invested in and can not handle the required power flow. They were attracted to those areas via the Capacity Auction policy of 'Locational Constraints' and were given preferential treatment over other participants. The impact to the system from such units should be looked at in greater detail as we are unsure as to whether they should be exposed to Difference Payments.

It is understood that the TSOs have identified various units that have Technical Offer Data that allows them to support the system in a manner that is preferential over other units. The TSOs often hold these units back in order to cover the scenarios of a worsening system condition. These can be outside DS3 or other services and are just a decision by the TSOs. Such decisions may group units but should not expose those units to Difference Charges.

The consultation paper clarifies that "the principle underpinning the design of the CRM is that exposure to Non-Performance Difference Charges is linked to actual volumes trades or delivered, rather than to unit availability, an exception is made where the System Service Flag is set for a unit." FERA would ask if the flag covers the whole unit RO or just the MW amount that the system service is contracted for. We would also ask if that volume would be considered a De-rated or installed value.

Our members also have experienced times when they have been exposed to Difference Charges, despite them being in merit and being part of a constraint group (Eirgrid/SONI Weekly Operational Constraints Update – Replacement Reserve section for Northern Ireland). FERA would ask, on behalf of its members, if this is operating as designed?

Section 3.1 summarises the issues highlighted above. FERA acknowledge that TSO scheduling may mean that "adherence to Merit Order may not necessarily be feasible". We would however state that the other issues that impact the schedule are not within the control of the participant and as such should be considered as potentially exposing the unit to Difference Charges.

This should not be the case. A participant strives to position their units such that they can support the system in an economic manner and with the understanding that their bidding strategy would avoid such an event. Other parties may make decisions, outside the CRM, the T&SC, Ex-Ante and Balancing Markets, which would ultimately impact a unit's position and as such this should not be allowed without significant examination and thought.

Q1 We all need to make sure that the TSO actions are justifiable and logged. The Merit Stack also needs to be published for the times of Scarcity, and the difference between a TSO merit stack and a SEMO merit stack should be highlighted and explained.

Q2 FERA members have provided some examples of when they believe that their bidding strategies would have resulted in dispatch, but the TSOs did not dispatch. This includes times when the Balancing Market price was above the bids (Complex and/or Simple).

The following is from one of our members-

12th July 2022 15:00hrs to 16:30 the Balancing price was above the Strike Price

- 2 DSUs in Northern Ireland was scheduled in Short Term schedule but not dispatched, thus exposing the unit to Difference Charges.
- A DSU in Ireland was scheduled for 3 separate occasions in Short Term schedule but only dispatch once. That dispatch was not at the time of Scarcity, thus exposing the unit to Difference Charges.

10th May 2022 16:30 to 21:00 hrs a DSU in Northern Ireland was scheduled in Short Term schedule but not dispatched

10th and 11th August a DSU in Ireland was dispatched on 3 occasions within a 24-hour period and twice within a 7-hour period. This demonstrates that the TSOs are not treating DSU as energy limited. This removes any excuse that DSU need to be held back, and questions the TSO de-rating factors.

9th September 2022 saw very high prices around 16:00

- A DSU in Ireland was scheduled and dispatched
- DSUs in Northern Ireland were not scheduled nor dispatched.

Another two of our members operate AGUs in Northern Ireland and both state that they were not dispatched on the 9th September 2021, when there was extreme high prices. This potentially exposed them to Difference Charges. A member has also confirmed whilst there were high market prices on 8th, 9th, 10th, 14th September 2021, 5th Jan22, 7th & 8th Mar22, 12th Jul22, and 9th Aug22 – they were not dispatch, with exposure to Difference Charge witnessed.

There appears to be an input in the scheduler for that day that meant that the units in Northern Ireland were not schedule nor dispatched. That Is not in line with the High-Level design – Scarcity only exists when there is a shortage over the whole island, and not just one jurisdiction. Notwithstanding that, participants want to avail of high prices and have market position.

Section 3.2 makes reference to the robustness of assessing availability. The term used here is Availability. However Grid Code has THE defined term for availability and there is an obligation under the Grid Code for each Unit to declare its true capability, which is provided via EDIL. This is the defined term for Availability that should be used in conjunction with the In-Merit position.

That however is only impacted by the knowledge that the unit operator has and is not inclusive of any other restrictions that they have no knowledge of. In attempting to perform calculations under dispatch conditions there needs to be additional information incorporated, that the Participant has no knowledge. This could include distribution and transmission limitations as well as holding certain units back for 'emergency system reasons. It could also mean looking at more recent developments that have deliberately positioned themselves in certain locations, which may have associated limitations. The use of Firm Access may be a useful tool in assessing these developments and if they are capable of supporting the system during 'tightness'.

We would therefore question if "availability" is being impacted by the TSO actions, and use of its constraint's groups. The use of "availability" in this consultation may be an inappropriate use and an alternative expression could be

Q3 All operational/dispatchable decisions are made by the TSO. A participant can do nothing more than make the capacity for the unit as much as possible and bid into the markets, so as to be in-merit. If the TSOs treat the unit as having abilities outside providing 'Replacement Reserve' and use these to impact dispatch decisions, then these should be used to flag the unit. Other groupings, such as constraints, are external matters for the TSOs and may result from overloaded wires, shortage of emergency generation, abundance of Renewable generation.

Q4 For Demand Side Response, the majority of trades are in the Balancing Market. Ex-Ante trades are monetary decisions rather than trying to avoid any scarcity obligations

Q5 Locational Constraints should work in tandem with firm access, otherwise dispatch of all available capacity may overload the distribution/transmission system. Holding back dispatch of a unit that is in-merit, for it to cover further/future potential generation/demand tightness should not expose it to scarcity.

Conclusion

FERA members are concerned that their units are not being dispatched and utilised to support the system during periods when the market prices are high. This is even if the prices are below the strike price.

We also have members who have units that have been grouped by SONI and may be held back during times when the system is tight and the prices are high, with the thought that because they have good technical offer data that they could be better used in providing emergency cover. This however exposes them to Difference Charges even though they are seen as more useful than others.

It can be seen that removing too many units from exposure to Difference Charges is likely to place pressure on the CRM hedge, although not doing so shall place a worse burden on those units that want to support the system but are not being asked to do so.